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The Goldfarb Corporation  
**2002** Annual Report



## **CORPORATE PROFILE**

The Goldfarb Corporation is a management company that controls and operates one business:

**SMK Speedy International Inc.**, a leading automobile service specialist with 130 stores in Canada which specializes in no-appointment, while-you-wait service for brakes, exhaust, road handling, steering systems, tires and oil change services for all makes of cars and light trucks. Speedy is listed on the Toronto Stock Exchange as SMK.



## **PRESIDENT'S MESSAGE**

*From Martin Goldfarb*

*Chairman, President and Chief Executive Officer*

This year has been an eventful year for The Goldfarb Corporation. Despite all of our efforts, at the end of the year the Corporation's subsidiary, Fleming Packaging Corporation, received notice from its lenders that it was in default of its borrowing facilities. In February 2003, the Corporation abandoned its investment in Fleming. Our efforts and attention are now focused on our remaining investment, SMK Speedy International Inc. ("Speedy").

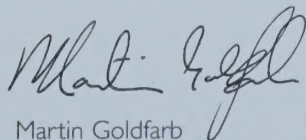
At Speedy, in 2002, the company continued to focus on building shareholder value while looking for opportunities to maximize revenues and cost efficiencies to improve performance. Speedy strengthened its balance sheet.

On July 7, 2002, Speedy completed the sale of its Car-X business to Tuffy Associates Corporation of Toledo, Ohio. The Car-X business sold consisted of substantially all of the operating assets of both Car-X Service Systems Inc., a franchisor of 185 automotive repair stores in the United States, and all but 12 of the stores of Discoverer Services Inc. ("DSI"). The total proceeds on the sale were US\$30 million including US\$2 million for consulting services. The 12 DSI stores were closed in 2002 and the related real estate is being sold. Speedy now has all of its operations – 130 stores – in Canada, where it opened its first store in 1956.

Conditions in the automotive aftermarket were again very weak in 2002. Market conditions continue to be impacted by many factors including a further decline in the exhaust business, improvements in automobile quality, the changing sales mix and the challenge to be profitable in a very competitive market. The company emphasis is on growth in products and services other than exhaust, providing excellence in customer service, as well as managing costs to improve profitability. Speedy's income for the year 2002 was \$5 million, including the gain on the sale of Car-X, compared to a loss of \$2.3 million in 2001.

The Speedy team is dedicated to providing outstanding service and to giving real meaning to "At Speedy You're A Somebody". This philosophy and commitment, which has been embodied in Speedy's operations, starts with Speedy's people and continues to apply to every customer, every time.

Speedy has significantly more cash as a result of the Car-X sale. Speedy's Board of Directors and management will explore all options available for the use of cash, consistent with the strategy of enhancing shareholder value. Once the plan of action at Speedy is determined, The Goldfarb Corporation will in turn explore all options to maximize value for its shareholders.



Martin Goldfarb

Chairman, President and Chief Executive Officer

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*For the Year Ended December 31, 2002*

## CORPORATE REVIEW

The Goldfarb Corporation (the "Corporation") is a management company that controls and operates one Canadian business:

SMK Speedy International Inc. ("Speedy"), a leading automobile service specialist, with 130 stores in Canada, which specializes in no-appointment, while-you-wait service for brakes, exhaust, road handling, steering systems, tires and oil change services for all makes of cars and light trucks. Speedy is listed on the Toronto Stock Exchange as SMK.

In 1989, The Goldfarb Corporation acquired a 35% interest in Speedy Muffler King Inc., now SMK Speedy International Inc. As Speedy grew, the Corporation increased its investment in the automotive service specialist and in 1996, acquired majority control of Speedy. At December 31, 2002, The Goldfarb Corporation held a 52.0% interest in Speedy.

The strategy at Speedy continues to be to build shareholder value. With the completion of the sale of the Car-X operations in 2002, Speedy now operates only in Canada. The proceeds from the sale of Car-X have been invested to earn income, while Speedy and its Board of Directors review all options for the application of any surplus funds. Speedy's strengths are an excellent brand, good locations across Canada and experienced staff. Speedy continues to focus on controlling costs and improving store performance. In 2002, the company implemented a vehicle diagnostic software system in many of its stores in Canada. Speedy's management believes this software will continue to increase efficiency in diagnosing vehicle problems, grow the new product lines and enable the company to better serve its customers. Due to the increased focus on these areas, there was a significant growth in non-core product lines, including front-end, tires, oil, lube and filter maintenance and other services.

The Goldfarb Corporation made another major investment in 1995 when it acquired a 66.3% interest in Fleming Packaging Corporation ("Fleming"). Through a number of separate transactions this equity interest was increased to 82.2% by December 31, 2001.

During 2002, the Corporation and Fleming adopted a formal plan to sell all of Fleming's operations. In the third and fourth quarters of 2002, Fleming disposed of its food packaging business through the sale of the Webkote and Spiralkote divisions for gross proceeds of US\$26 million and US\$4 million, respectively.



On February 10, 2003, Fleming reached an agreement with its lenders that addressed Fleming's ongoing default under its loan agreements. Under the terms of the amendment, the Corporation relinquished its control of Fleming but retains its 82.2% equity position. The lenders have put Fleming up for sale. The Corporation will receive 3.5% of the net proceeds as defined under the terms of the amendment, in addition to its right to participate as a shareholder in any surplus funds resulting from the sale which will be accounted for when received. The Corporation's abandonment of its investment in Fleming in the first quarter of 2003 will result in an after-tax gain of approximately \$21.6 million and will be recorded in that period. The gain is a result of the de-consolidation of Fleming whose liabilities exceeded assets by a similar amount at December 31, 2002 and after giving effect to foreign currency translation adjustments.

The Goldfarb Corporation's shares are traded on the Toronto Stock Exchange under the symbol GDFA.

## COMPARABILITY

The following comments provide a review and analysis of The Goldfarb Corporation's operations and financial position for the year ended December 31, 2002 in comparison with the year ended December 31, 2001.

As a result of the sale of the Car-X operations and the plan to dispose of Fleming, the consolidated financial statements reflect the results of operations, cash flows and net assets of Car-X's and Fleming's businesses as discontinued operations. Comparative figures have been restated to segregate these discontinued operations from continuing operations. This MD&A discussion will focus on performances in continuing operations which are comprised of Speedy's operations in Canada.

The Management Discussion and Analysis should be read in conjunction with the Corporation's Consolidated Financial Statements and Accompanying Notes.

## RESULTS OF OPERATIONS

### Revenues

Consolidated revenues from continuing operations for The Goldfarb Corporation for the year ended December 31, 2002 were \$99.0 million compared to revenues of \$101.3 million in 2001, a decrease of \$2.3 million or 2.3%. At Speedy, same store sales were down 2.5%. Growth in sales of other products continues to improve, but not sufficiently to offset the decline in revenues of exhaust and brake products. The average same store revenue per job increased in 2002 in all product lines except for front-end, however there was a decrease of 1.5% in overall revenues as a result of changes in the sales mix. Total same store units for all products sold decreased by 1.0%. Excluding exhaust sales, same store sales were up 2.6%. Speedy received \$3.0 million for consulting services over the last two quarters of 2002 from the purchasers of the Car-X operations.

## **EBITDA<sup>1</sup>**

Consolidated earnings for The Goldfarb Corporation before depreciation and amortization, interest, unusual items, minority interest and income taxes (EBITDA) for the year ended December 31, 2002 was a loss of \$0.5 million compared to a loss of \$0.8 million in 2001.

Speedy's income before depreciation and amortization, unusual items, interest and income taxes was \$0.5 million in 2002 compared to a loss of \$0.1 million in 2001. The improvement reflects consulting revenues received from the purchasers of the Car-X operations, lower energy costs, store costs, advertising expenditures and training, partially offset by administrative overhead of \$1.1 million previously absorbed by the operations of Car-X.

## **Depreciation and Amortization**

The Corporation's consolidated depreciation and amortization expense for 2002 was \$3.3 million compared to \$3.9 million in 2001 and reflects assets becoming fully depreciated in the year.

## **Unusual Item – Gain on Sale of Speedy USA**

In the third and fourth quarters of 2001, Speedy received US\$1.8 million relating to funds that were held in escrow from the sale of Speedy USA. Related charges and accruals of \$0.6 million were recorded to produce a net gain of \$2.3 million.

## **Interest Income**

The consolidated net interest income for the Corporation was \$1.0 million for 2002 compared to \$0.8 million in 2001.

Speedy's interest income in 2002 of \$0.8 million has increased in comparison to \$0.5 million recorded in 2001. The increase was due to interest earned from the notes receivable related to the Car-X sale (\$0.5 million) and income from investment of cash balances from the receipt of proceeds from the sale, offset by lower interest rates.

<sup>1</sup> EBITDA represents income before interest income, income taxes, depreciation and amortization. EBITDA is included herein because management believes that certain investors will find it to be a useful tool for measuring the Corporation's performance; however, EBITDA does not represent cash flow from operations, as defined by GAAP, and should not be considered as a substitute for net earnings as an indicator of the Corporation's performance or cash flow as a measure of liquidity.



### **Income Tax Expense (Recovery)**

Income tax expense for the Corporation was \$0.8 million in 2002 compared to a recovery of \$0.7 million in 2001. At Speedy, income tax expense includes a valuation allowance on future tax assets offset by the recognition of U.S. income tax losses not previously recognized. At the end of 2002, Speedy had approximately \$29.9 million of available income tax loss carry forwards in Canada and \$5.4 million in the United States. Future income tax assets relating to the tax loss carry forwards have been recorded net of a valuation allowance.

### **Income (Loss) from Discontinued Operations – Car-X**

During 2002, Speedy completed the sale of substantially all of the company operated and franchise stores operating under the Car-X brand in the United States for gross proceeds of US\$28.0 million consisting of US\$18.5 million in cash and US\$9.0 million in notes receivable. An additional US\$0.5 million was placed in escrow for two years to fund potential environmental liabilities and will be recognized as income if, and when, received. The buyer assumed approximately US\$1.3 million of operating liabilities.

The net gain of \$8.5 million is net of state taxes of \$1.4 million and a future tax expense of \$4.6 million to recognize income tax losses previously recorded that will be utilized.

### **Income (Loss) from Discontinued Operations – Fleming**

During 2002, the Corporation and Fleming committed to a formal plan to dispose of Fleming's operations. Fleming disposed of its food packaging business in 2002 through the sale of its Webkote and Spiralkote divisions for gross proceeds of US\$30 million. US\$2.7 million is being held in escrow for release at varying dates until May 5, 2004 subject to indemnity and contractual obligations and will be accounted for when received by Fleming. Fleming's remaining operations are expected to be disposed of in 2003.

The loss from discontinued operations of \$31.4 million for the year ended December 31, 2002 includes an accrual for the estimated loss of \$2.2 million from operations incurred from January 1, 2003 to the effective disposal date of February 10, 2003.

### **Net Income (Loss)**

The consolidated net loss for The Goldfarb Corporation in 2002 was \$22.2 million or \$3.77 per share compared to a consolidated net income of \$0.1 million or \$0.01 per share in 2001.

The impact of any exercise of outstanding stock options was anti-dilutive for 2002 and 2001.

## FINANCIAL POSITION

Fleming was in default of certain of its debt ratio requirements at December 31, 2002. On February 10, 2003, Fleming reached an agreement with its lenders that addresses Fleming's ongoing default under its loan agreements. Under the terms of the amendment, the Corporation has relinquished its control of Fleming but retains its 82.2% equity position. The lenders have put Fleming up for sale. The Corporation will receive 3.5% of the net proceeds as defined under the terms of the amendment, in addition to its right to participate as shareholder in any surplus funds resulting from the sale which will be accounted for when received.

The Goldfarb Corporation's consolidated long-term debt position at December 31, 2002, including portions due within one year, was \$37.3 million compared to \$70.6 million in 2001. The long-term debt is attributable to Fleming. Proceeds from the sale of Fleming's food packaging business were used to pay down its long-term debt. As a result of the default to its bank, Fleming has recorded all bank debt at December 31, 2002 as a current liability. To the extent that such long-term debt is secured, solely the assets of this subsidiary secure its debt.

Shareholders' equity of the Corporation at December 31, 2002 was \$30.9 million compared to \$76.3 million at December 31, 2001 which reflects the significant loss on discontinued operations at Fleming.

## LIQUIDITY AND CAPITAL RESOURCES

Excluding assets and liabilities from discontinued operations, the Corporation had consolidated working capital of \$43.4 million at December 31, 2002 compared to \$21.6 million at December 31, 2001. The improvement was primarily due to the receipt of proceeds from the sale of Speedy's Car-X operations.

Speedy has a \$10.0 million renewable revolving term credit facility with its principal banker. The availability under the credit facility was \$5.9 million at year-end. The facility was extended to September 19, 2003 and is extendible for further terms of 364 days. The agreement has no restrictive financial covenants. Borrowings are secured by Speedy's inventory, accounts receivable and certain properties. There were no outstanding borrowings under this facility at year-end. Speedy's other capital expenditures of \$2.0 million in 2002 compared to \$2.7 million in 2001. Two new stores were opened in 2002 and 2001 with higher expenditures incurred for equipment in 2001.

Consolidated cash flow provided by 2002 continuing operating activities for The Goldfarb Corporation was \$3.4 million compared to an outflow of \$4.4 million in 2001. Cash flow provided by Speedy's continuing operations was an inflow of \$2.9 million, compared with an outflow of \$2.9 million in 2001. For the year ended December 31, 2002, cash flow used for continuing operating activities, prior to working capital changes, was an inflow of \$1.5 million compared to an inflow of \$3.7 million in 2001. Changes in non-cash working capital balances were a positive \$1.2 million compared to a negative \$6.6 million in 2001. This change was a result of a reduction in inventories in 2002 compared to a significant reduction in accounts payable and accruals and an increase in inventories in 2001. Consolidated cash flow used in operating activities of discontinued operations in 2002 was \$9.4 million compared to a cash inflow of \$2.7 million in 2001. In 2002, Speedy's Car-X operations and Fleming used \$4.0 million and \$5.4 million of cash, respectively.



Cash used in the Corporation's 2002 financing activities of \$33.2 million compared to \$1.1 million used in financing activities in 2001. Financing activities for 2002 reflects the repayment of long-term debt by Fleming from the proceeds of sale of its food packaging business.

Cash flow provided by the Corporation's 2002 investing activities include \$29.1 million from the sale of Speedy's Car-X business and \$41.4 million from the sale of Fleming's food packaging business. Cash flow used in the Corporation's 2001 investing activities includes the additional investment in Fleming by the Corporation, the proceeds from the sale of Speedy USA as well as capital expenditures at Speedy and Fleming.

## **RISKS AND RISK MANAGEMENT**

The Corporation's business is subject to a number of risks in the areas of competition, technology, expansion, foreign exchange, interest rates, the environment, consumer protection and supplies. Management seeks to minimize the risk associated with these factors through a combined strategy of detailed advance planning, regular operational reviews as well as through product diversification. The Corporation also monitors certain legislative and economic trends that could potentially have an impact on its operations. The Corporation is vulnerable to adverse general economic conditions in the markets in which it operates.

### **Competitive Risk**

Speedy operates in the highly competitive retail automotive service industry. Levels of competition vary in the different geographic regions in which the company operates. Speedy competes with other similar automotive service chains, automobile dealers' service operations, local repair garages and merchandisers with service bays offering services similar to Speedy's. Other major chains specialize in similar services. There are also many smaller regional chains competing for market share. All remain aggressive in trying to build consumer awareness levels by expanding their network and through advertising and promotions. Many of these chains, including Speedy, have also diversified their product offerings, and this is expected to continue.

Automobile dealers in the markets in which Speedy operates continue to be more aggressive in trying to attract customers to their service bays. Many have set up "quick service" bays and are extending their hours of operation to be more customer-friendly. In addition, the use of longer term, more attractive warranty packages on new vehicles by original dealers and on used vehicles by used car dealers and used car superstores result in consumers being more likely to have their automobiles serviced at such locations for a longer portion of the vehicle's service life. This may reduce service opportunities for the specialists and other competitors.

In addition, certain automotive parts merchandisers are creating automotive repair centres by adding service bay capability to complement their traditional parts sales business. This trend will likely continue in the future.

### **Technological Risk**

The automotive industry continuously incorporates technological advances into the development and construction of new vehicles to achieve cost efficiencies while improving vehicle performance, reliability and safety. Several developments illustrate the influence that technological advances have had on the automotive after-market repair industry. These developments include the introduction of stainless steel exhaust systems and the evolution of anti-lock brakes ("ABS") and increased computerization and the continuing development of on-board diagnostics ("OBD").

The impact of stainless steel exhaust systems on revenues has been significant in the past. Stainless steel systems, which are longer lasting than traditional exhaust systems, are now installed on virtually all vehicles. The demand for exhaust replacement is expected to continue to decline for 2-3 more years as projected by major suppliers. On a same-store basis, approximately 33% of revenues from company-operated stores were derived from the sale and service of exhaust systems in 2002 compared to 37% in 2001.

The increase in the use of ABS has affected the brake repair industry. Automobile manufacturers have responded to consumer demands by making ABS available in many new car models. These systems are much more technically demanding to repair, and to compete it is necessary to invest in equipment, systems and staff training.

There can be no assurance that Speedy will be able to respond effectively to similar technological advancements in the automotive industry in the future, which could have an adverse impact on the company's operations.

### **Expansion Risk**

Speedy expands its store network through internal growth and, if attractive opportunities arise, acquisitions. Profitability is negatively affected during a period of expansion as new stores generally do not break even in the year of opening and take several years to mature, even when opened in existing markets. The period of time for profitability to occur can take longer in new markets. Trends in municipal regulations in many jurisdictions have made the process of securing permits and zoning for new stores more difficult and time consuming, affecting the rate of new store openings.

Speedy manages these risks by planning initiatives into new markets carefully, after completion of market studies and consumer research. Experienced staff from other areas can be drawn on during the start-up phase to help ensure success. Risks can also be reduced through the use of joint ventures, licensing and franchising.



### **Foreign Exchange Risk**

The Goldfarb Corporation's financial statements are reported in Canadian dollars and are subject to fluctuations in exchange rates of the Canadian dollar with the U.S. dollar. In 2002, approximately one-quarter of the consolidated revenues were denominated in U.S. dollars.

After the sale of the Car-X division, Speedy's exposure to operations in foreign currency has been reduced. However, there is foreign exchange rate exposure to the U.S. dollar denominated notes receivable. With the formal plan to sell all of Fleming's operations, the Corporation's exposure to operations in foreign currency has been further reduced.

### **Interest Rate Risk**

In 2001, Speedy redeemed the remaining senior notes, substantially eliminating its exposure to interest rate risk. However, there is no guarantee that Speedy will not borrow in the future and become exposed to movements in interest rates. Speedy follows a policy of viewing financial risk management as a treasury function and has the controls in place to monitor any exposure that may arise.

### **Environmental Risk**

Environmental sensitivity is a crucial concern because of the nature of Speedy's business. There are specific issues in the automotive service industry, including the brake, exhaust, tire and oil change service product lines in which Speedy has been involved for a number of years. Such environmental issues include the storage and disposal of fluid or solid materials, as well as environmental issues associated with property owned by Speedy and property on which it has operated its business.

Speedy has an environmental policy administered by its Environmental Officer and environmental issues are reported regularly to its Board of Directors. Compliance with safety and environmental standards is primarily the responsibility of the divisional general managers, regional managers and store managers. Moreover, Speedy has an internal environmental review system to monitor compliance with such standards.

Although there can be no assurance that Speedy will not experience significant environmental problems in the future or that the cost of compliance will not substantially increase, to date, Speedy has not been subject to any significant environmental litigation or prospect of litigation.

### **Consumer Protection Risk**

The automotive repair industry has been the subject of a high level of concern on the part of consumers, who fear being sold products or services that are not required. The issue of credibility in the industry has received considerable attention in recent years and legislative bodies have considered steps to address it. Although Speedy uses industry-wide inspection and repair guidelines to ensure consistency in its practice, there can be no assurance that the legislative action or any other events will not be taken in the future which could be detrimental to Speedy's operations.

### Supplier Risk

Speedy is party to a supply agreement with Tenneco Inc. under which, until 2004, it is obligated to purchase a substantial majority of its exhaust system products, shock absorbers and struts for its stores in Canada and the United States. Speedy's purchases from Tenneco currently meet those required by the supply agreement. If an unanticipated termination of this agreement were to occur, Speedy could experience delays and higher costs in the short term and may not be able to purchase those products on comparable terms.

Weak aftermarket conditions and the decline in new car production have put pressure on several major manufacturers of parts used by the aftermarket service providers. Several have announced extended layoffs and closing of facilities in an attempt to reduce costs and respond to business conditions. Consequently, there is the likelihood of change and consolidation in this sector of the automotive industry, which may affect the availability, distribution and cost of parts.

## OUTLOOK

Management remains committed to building shareholder value in its investment through growth in revenues and profits and through strategic transactions.

At Speedy, the automotive aftermarket remains very competitive. The improvements in automobile quality, and the continued decline in the exhaust business, have negatively impacted Speedy's performance. However emphasis on growth in other product sales is partially offsetting these factors, although other products are less profitable than exhaust.

There have been some improvements in Speedy's performance in 2002 in spite of continuing challenges in the automotive aftermarket. Growth in non-core product lines, together with cost containment, have positively impacted results. Included in these non-core products are new services such as air-conditioning, performance products and other customer services provided through the use of vehicle diagnostics software to provide better maintenance information.

The strategy at Speedy continues to focus on building shareholder value through improved productivity and achieving value from the sale of assets. Speedy will continue to evaluate opportunities to maximize this value. Speedy also continues to look for opportunities to maximize revenues and cost efficiencies to improve store performance while focusing on providing outstanding customer service to every customer every time.



# FINANCIAL DATA FOR THE LAST EIGHT QUARTERS

Quarter ended (1) (2)	(unaudited) (millions of dollars except per share information)		Earnings (loss) per Class A and Class B Share	
	Revenues	Net income (loss)	Basic	Fully diluted
<b>2002</b>				
December 31	\$ 24.4	\$ (19.8)	\$ (3.35)	\$ (3.35)
September 30	26.7	1.6	0.28	0.28
June 30	26.8	(1.4)	(0.24)	(0.24)
March 31	21.0	(2.7)	(0.46)	(0.46)
<b>2001</b>				
December 31	\$ 24.1	\$ (1.1)	\$ (0.19)	\$ (0.19)
September 30	26.5	1.5	0.26	0.26
June 30	28.4	1.1	0.18	0.18
March 31	22.3	(1.4)	(0.24)	(0.24)

## Notes:

(1) For each of the last eight quarters there have been no extraordinary items reported.

(2) Comparative amounts have been reclassified to conform with the presentation in the current year.

**Note:** Certain statements in the Report to the Shareholders and in this Management's Discussion and Analysis are "forward-looking statements" which reflect management's expectations regarding the Corporation's future growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Many factors could cause results to differ materially from the results discussed in the forward-looking statements, including risks related to dependence on key suppliers, economic conditions, competition, regulatory change, foreign exchange rates, interest rates, among others. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this report, and the Corporation does not assume any obligation to update or revise them to reflect new events or circumstances.

# AUDITORS' REPORT

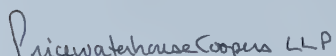
*For the Year Ended December 31, 2002*

## To the Shareholders of The Goldfarb Corporation

We have audited the consolidated balance sheets of The Goldfarb Corporation as at December 31, 2002 and 2001 and the consolidated statements of income (loss) and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Chartered Accountants  
Toronto, Ontario  
March 7, 2003



# CONSOLIDATED BALANCE SHEET

As at December 31

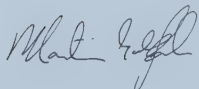
(thousands of dollars)

	2002	2001
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 40,669	\$ 15,592
Accounts and other amounts receivable	1,556	1,397
Inventories	10,224	11,169
Income taxes recoverable	83	1,709
Future income tax assets (note 7)	915	1,618
Prepaid expenses and sundry assets	1,136	1,416
Current assets of discontinued operations (note 2)	27,485	60,783
<b>Total Current Assets</b>	<b>82,068</b>	<b>93,684</b>
<b>Property, Plant and Equipment</b> (note 3)	<b>31,072</b>	<b>32,978</b>
<b>Notes Receivable</b> (note 4)	<b>14,112</b>	<b>—</b>
<b>Future Income Tax Assets</b> (note 7)	<b>4,601</b>	<b>9,481</b>
<b>Other Assets</b>	<b>194</b>	<b>790</b>
<b>Non-current Assets of Discontinued Operations</b> (note 2)	<b>38,769</b>	<b>125,214</b>
	<b>\$ 170,816</b>	<b>\$ 262,147</b>

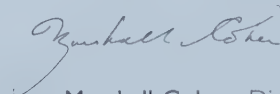
## LIABILITIES AND SHAREHOLDERS' EQUITY

<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 11,142	\$ 11,315
Current liabilities of discontinued operations (note 2)	69,258	50,737
<b>Total Current Liabilities</b>	<b>80,400</b>	<b>62,052</b>
<b>Non-current Liabilities of Discontinued Operations</b> (note 2)	<b>15,534</b>	<b>74,836</b>
<b>Other Liabilities</b>	<b>719</b>	<b>641</b>
<b>Minority Interest</b>	<b>43,308</b>	<b>48,352</b>
<b>Shareholders' Equity</b>		
Capital stock (note 6)	55,616	55,616
Contributed surplus	453	453
Foreign currency translation adjustments	2,993	2,542
Retained earnings (deficit)	(28,207)	17,655
<b>Total Shareholders' Equity</b>	<b>30,855</b>	<b>76,266</b>
<b>Commitments and Contingencies</b> (note 8)		
	<b>\$ 170,816</b>	<b>\$ 262,147</b>

Approved by the Board:



Martin Goldfarb, Director



Marshall Cohen, Director

# **CONSOLIDATED STATEMENT OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)**

For the year ended December 31

(thousands of dollars except per share information)		2002	2001
<b>Revenues</b> (note 9)	<b>\$</b>	<b>98,972</b>	<b>\$ 101,327</b>
Cost of sales, selling and administrative expenses		99,507	102,154
		(535)	(827)
Depreciation and amortization		(3,295)	(3,862)
Gain on sale of Speedy USA (note 14)		—	2,281
<b>Operating Loss</b>		<b>(3,830)</b>	<b>(2,408)</b>
Interest income, net		1,017	811
Dilution gain (loss) on capital transactions by subsidiaries (note 1)		(83)	148
Gain on sale of investment		—	377
<b>Loss before income taxes,</b>			
<b>minority interest and discontinued operations</b>		<b>(2,896)</b>	<b>(1,072)</b>
Income tax recovery (expense) (note 7)		(774)	676
Minority interest – continuing operations		1,334	482
Income (Loss) from continuing operations		(2,336)	86
Income (Loss) from discontinued operations – Car-X (note 2(a))		7,795	(1,340)
Income (Loss) from discontinued operations – Fleming (note 2(b))		(31,363)	1,616
Minority interest – discontinued operations		3,659	(308)
<b>Net Income (Loss)</b>		<b>(22,245)</b>	<b>54</b>
Retained Earnings, beginning of year		17,655	17,601
Retroactive adjustment with respect to the adoption of the fair value method of accounting for goodwill (note 1)		(23,617)	—
<b>Retained Earnings (Deficit), end of year</b>	<b>\$</b>	<b>(28,207)</b>	<b>\$ 17,655</b>
<b>Basic and Fully Diluted Income (Loss) per Share</b>			
Continuing operations	<b>\$</b>	<b>(0.40)</b>	<b>\$ 0.01</b>
Discontinued operations		(3.37)	0.00
<b>Income (Loss) per Share and</b>			
<b>Fully Diluted Income (Loss) per Share</b>	<b>\$</b>	<b>(3.77)</b>	<b>\$ 0.01</b>



# CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended December 31

(thousands of dollars)

	2002	2001
<b>Operating Activities</b>		
Net Income (Loss) from continuing operations	\$ (2,336)	\$ 86
Add (deduct) items not involving cash:		
Depreciation and amortization	3,295	3,862
Amortization of deferred swap valuation and financing fees	107	150
Future income taxes	805	619
Minority interest – continuing operations	(1,334)	(482)
Gain on disposal of property, plant and equipment	98	34
Dilution (gain) loss on capital transactions by subsidiaries	83	(148)
Gain on sale of Speedy USA	–	(2,281)
Gain on sale of investment	–	(377)
Other	–	(80)
	718	1,383
Changes in non-cash working capital balances (note 12)	2,646	(5,774)
Cash provided by (used in) operating activities of continuing operations	3,364	(4,391)
Cash provided by (used in) operating activities of discontinued operations	(9,439)	2,678
Cash used in operating activities of all operations	(6,075)	(1,713)
<b>Financing Activities</b>		
Decrease in long-term debt, net	–	(491)
Other	37	52
Financing activities of discontinued operations	(33,231)	(647)
Cash used in financing activities	(33,194)	(1,086)
<b>Investing Activities</b>		
Additions to property, plant and equipment	(2,049)	(2,911)
Proceeds on disposal of property, plant and equipment	515	32
Proceeds on sale of Car-X	29,094	–
Proceeds on sale of Speedy USA (note 14)	–	2,281
Increase in investment in Fleming (note 1)	–	(2,796)
Proceeds on sale of investment	–	377
Other	361	438
Investing activities of discontinued operations	38,907	(2,945)
Cash provided by (used in) investing activities	66,828	(5,524)
Foreign exchange gain (loss) on cash held in foreign currency	(158)	758
<b>Increase (decrease) in cash and cash equivalents for the year</b>	<b>27,401</b>	<b>(7,565)</b>
Cash and cash equivalents, beginning of year (note 12)	17,368	24,933
Cash and cash equivalents, end of year (note 12)	\$ 44,769	\$ 17,368

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2002 and 2001

(thousands of dollars except per share information)

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Principles of Consolidation

The financial statements of entities which are controlled by the Corporation are consolidated.

The fiscal year end for SMK Speedy International Inc. ("Speedy") is the Saturday nearest to December 31, being December 28, 2002 and December 29, 2001 for the last two fiscal years. During 2002, 16,375 stock options of Speedy were exercised (2001 – nil) and Speedy repurchased no common shares through a Normal Course Issuer Bid (2001 – 33,100). The impact of these transactions was to decrease the Corporation's ownership to 52.0% (2001 – 52.1%).

On April 30, 2001, Fleming's senior subordinated debt-holders required that their related warrants be purchased by the company. On October 19, 2001 shareholders of Fleming, including the Corporation, purchased the common stock and warrants owned by the debt-holders. The Corporation paid \$2.8 million for the common stock and warrants which increased its ownership of Fleming from 61.6% to 82.2%. This purchase has been accounted for as a step-acquisition. The excess of the purchase price over the fair value of the net assets acquired of \$5.7 million was recorded as goodwill. Minority interest was adjusted to its new carrying amount. Subsequent to year end, the Corporation relinquished control of Fleming (note 15).

All significant inter-company transactions and balances have been eliminated in the consolidated financial statements.

#### Goodwill

Effective January 1, 2002, the Corporation adopted the new Canadian Institute of Chartered Accountants Handbook Section 3062 "Goodwill and Other Intangible Assets" (CICA 3062), which no longer permits the amortization of goodwill and other indefinite life intangibles. The new standard requires a fair value impairment test be performed annually on goodwill and other indefinite life intangibles. A review of the business units of Fleming was performed at June 30, 2002 resulting in a permanent impairment of \$23.6 million. The new standard has been applied retroactively without restatement of prior period financial statements. Retained earnings at January 1, 2002 have been decreased by \$23.6 million. Goodwill amortization amounted to \$1,605 for the year ended December 31, 2001. Excluding goodwill amortization, the net income for the year ended December 31, 2001 would have been \$1,659 (\$0.28 per share).



## Stock-Based Compensation

Effective January 1, 2002, the Corporation adopted the new Canadian Institute of Chartered Accountants Handbook Section 3870 "Stock-based Compensation" (CICA 3870). Under these recommendations, where the fair value-based method of accounting has not been used to account for employee stock options, companies are required to disclose pro-forma net income and pro-forma earnings per share as if the fair value-based method of accounting had been used to account for these stock-based awards. The Corporation has applied the pro-forma disclosure provisions of the new standard to awards granted on or after January 1, 2002.

## Translation of Foreign Currencies

Self-sustaining operations, which comprise all of the Corporation's foreign operations, are those whose economic activities are largely independent of those of the parent company. Assets and liabilities denominated in a foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet dates. Resulting unrealized gains or losses are deferred and included under Shareholders' Equity as Foreign Currency Translation Adjustments. The change in the Foreign Currency Translation Adjustments account reflects changes due to fluctuations in exchange rates during the year and gains or losses realized on the sale of foreign subsidiaries. Revenues and expenses are translated at average exchange rates prevailing during the year.

## Pension Costs and Retirement Benefits

Speedy has defined contribution pension plans for certain employees. The costs of these plans are determined based on the contributions required under the plans.

## Inventories

Automotive service and repair inventories are carried at the lower of cost and replacement cost using the first-in, first-out method.

## Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided substantially by the straight-line method over the estimated useful lives of the assets as follows:

<i>Asset Category</i>	<i>Rate</i>
Buildings and improvements	10 – 25 years
Machinery and equipment	3 – 12 years
Leasehold improvements	Term of lease including options where applicable

## Warranty Costs

A provision for the costs associated with providing services under Speedy's warranty program is recorded in the consolidated financial statements based upon historical relationships of warranty costs to revenues.

## **Use of Estimates**

Financial statements prepared in conformity with generally accepted accounting principles require management to make estimates and assumptions about reported assets and liabilities, disclosure of contingent assets and liabilities and reported amounts of revenues and expenses. Management must also make estimates and judgements about future results of operations, related to specific elements of the business and operating units, in assessing recoverability of assets and recorded values of liabilities. Actual results could differ from those estimates.

## **Income Taxes**

Current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. These future income taxes are calculated using income tax rates and laws that are expected to apply when these differences are reflected in taxable income. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

## **Revenue Recognition**

Revenues of company operated stores are recognized when customer vehicles are repaired or serviced or upon the sale of incidental products. Initial franchise fees for stores are recognized as income when the store has opened. Continuing franchise royalties are based on a percentage of gross sales as reported by the franchisees or products purchased by the franchisees. These revenues are recognized on an accrual basis as they are earned.

## **Earnings Per Share**

Earnings per share have been calculated on the weighted average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year. Commencing January 1, 2001 the Corporation adopted retroactively the new Canadian Institute of Chartered Accountants Handbook Section 3500 "Earnings Per Share" (CICA 3500), which requires the use of the treasury stock method for calculating fully diluted earnings per share. Fully diluted earnings (loss) per share for the years ended December 31, 2002 and 2001 has not been adjusted since the effect of any exercise of outstanding stock options is anti-dilutive.

## **Comparative Figures**

Certain comparative figures have been reclassified to conform to the presentation adopted in fiscal 2002.



## 2. DISCONTINUED OPERATIONS

During 2002, Speedy completed the sale of substantially all of the operating assets of its Car-X business. Also during 2002, the Corporation and Fleming committed to a formal plan to sell all of Fleming's operations. Accordingly, these consolidated financial statements reflect the results of operations and net assets of the Car-X business and Fleming as discontinued operations. Comparative figures have been restated to segregate these operations from continuing operations.

- a) Car-X was sold for gross proceeds of US\$28.0 million consisting of US\$18.5 million in cash and US\$9.0 million in notes receivable (note 4). An additional US\$0.5 million will be held in escrow for two years to fund potential environmental liabilities and will be accounted for when received by Speedy. The buyer assumed approximately US\$1.3 million of operating liabilities. Speedy received \$3.0 million from the buyers of the Car-X business for consulting services rendered during 2002.

Summarized financial information for Car-X is as follows:

	December 31	
	2002	2001
Current assets	\$ 744	\$ 10,107
Property, plant and equipment	3,246	22,284
Other assets	—	788
Assets of discontinued operations – Car-X	\$ 3,990	\$ 33,179
Current liabilities	\$ 4,129	\$ 6,739
Other liabilities	—	380
Liabilities of discontinued operations – Car-X	\$ 4,129	\$ 7,119
	Year Ended December 31	
	2002	2001
Revenues	\$ 7,563	\$ 57,405
Income (loss) from operations before income taxes	\$ (842)	\$ 207
Recovery of (provision for) income taxes	153	(1,547)
Loss from operations	(689)	(1,340)
Gain on sale of Car-X	14,358	—
Provision for income taxes	(5,874)	—
Net gain on sale of Car-X	8,484	—
Income (loss) from discontinued operations – Car-X	\$ 7,795	\$ (1,340)

b) Fleming disposed of its food packaging business in 2002 through the sale of its Webkote and Spiralkote divisions for gross proceeds of US\$30 million. US\$2.7 million is being held in escrow for release at varying dates until May 5, 2004 subject to indemnity and contractual obligations and will be accounted for when received by Fleming. As a result of the default to its bank, all of Fleming's bank debt at December 31, 2002 has been recorded as a current liability. Included in Fleming's loss from operations for the year ended December 31, 2002 is a goodwill write-off of \$3.0 million. As disclosed in note 15, the Corporation has abandoned its investment in Fleming whose remaining operations are expected to be disposed of in 2003. The loss from discontinued operations of \$31.4 million for the year ended December 31, 2002 includes an accrual for the estimated loss of \$2.2 million from operations incurred from January 1, 2003 to the effective disposal date of February 10, 2003.

Summarized financial information for Fleming is as follows:

	December 31	
	2002	2001
Current assets	\$ 26,741	\$ 50,676
Property, plant and equipment	24,743	40,840
Goodwill	—	49,366
Other assets	10,780	11,936
Assets of discontinued operations – Fleming	\$ 62,264	\$ 152,818
Current liabilities	\$ 65,129	\$ 43,998
Long-term debt	—	57,757
Other liabilities	15,534	16,699
Liabilities of discontinued operations – Fleming	\$ 80,663	\$ 118,454
	Year Ended December 31	
	2002	2001
Revenues	\$ 152,326	\$ 177,958
Income (loss) from operations before income taxes	\$ (24,988)	\$ 2,671
Recovery of (provision for) income taxes	7,066	(1,055)
Income (loss) from operations	(17,922)	1,616
Gain on sale of food packaging business	21,121	—
Less: Goodwill not deductible for income tax purposes	(22,790)	—
Provision for income taxes	(9,536)	—
Net loss on sale of food packaging business	(11,205)	—
Loss from operations prior to February 10, 2003	(2,236)	—
	(13,441)	—
Income (loss) from discontinued operations – Fleming	\$ (31,363)	\$ 1,616



### 3. PROPERTY, PLANT AND EQUIPMENT

Components of property, plant and equipment:

	2002		2001	
	Cost	Net of accumulated depreciation	Cost	Net of accumulated depreciation
Buildings and improvements	\$ 16,555	\$ 10,165	\$ 16,812	\$ 11,072
Machinery and equipment	33,254	10,391	33,217	11,329
Leasehold improvements	5,010	1,445	4,682	1,280
Land	9,071	9,071	9,297	9,297
	<b>\$ 63,890</b>	<b>\$ 31,072</b>	<b>\$ 64,008</b>	<b>\$ 32,978</b>

### 4. NOTES RECEIVABLE

Notes receivable have been received as part of the proceeds relating to the Car-X sale (note2(a)) and are comprised of:

US\$3,000, interest bearing at U.S. prime plus 3% payable quarterly, with the principal due in full on July 7, 2007	<b>\$ 4,704</b>
US\$6,000, interest bearing at U.S. prime plus 2% payable quarterly, with US\$1,000 principal payments due on the anniversary date of July 7 in each of the years 2006 to 2009, with the balance of US\$2,000 due on July 7, 2010	<b>9,408</b>
	<b>\$ 14,112</b>

The notes are collateralized by the assets of the purchaser, Tuffy Associates Corp., and its subsidiary, Car-X Associates Corp. The US\$3,000 note is further collateralized by a guarantee by Tuffy Associates Corp.

### 5. BANKING FACILITIES

Speedy has a \$10,000 renewable revolving term credit facility with its principal banker with a maturity date of September 19, 2003. The facility is extendible for further terms of 364 days. The facility provides Speedy the ability to repay and then borrow up to the maximum at any time. Availability under the credit facility is reduced by letters of credit. The availability of credit is limited to a certain ratio of accounts receivable and inventories which at the year end would have permitted maximum borrowings of \$5.9 million, net of letters of credit. Borrowings are secured by Speedy's inventory, accounts receivable and certain properties. There were no outstanding borrowings under this facility at December 31, 2002 or 2001.

## 6. CAPITAL STOCK

The Corporation's authorized capital stock is as follows:

- Unlimited number of Preference Shares, issued in series;
- Unlimited number of Class A Subordinate Voting Shares;
- 182,000 Class B Shares carrying 15 votes per share, convertible into Class A Subordinate Voting Shares on a one-for-one basis. In certain prescribed circumstances, additional Class B Shares as may be required to effect the conversion of Class A Subordinate Voting Shares into Class B Shares.

The issued share capital is summarized as follows:

	Number	
	Class A	Class B
Balance at December 31, 2001 and 2002	5,724,660	182,000

	Amount		
	Class A	Class B	Total
Balance at December 31, 2001 and 2002	\$ 55,403	\$ 213	\$ 55,616

A summary of the status of the Corporation's stock option plan as of December 31, 2002 and 2001 and changes during the years ending on those dates is presented below:

	December 31, 2002		December 31, 2001	
	Number of Shares	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
Outstanding at beginning of year	784,000	\$ 6.87	864,000	\$ 7.58
Granted	140,000	\$ 3.72	—	—
Exercised	—	—	—	—
Forfeited	(55,000)	\$ 10.20	(80,000)	\$ 14.50
Outstanding at end of year	869,000	\$ 6.16	784,000	\$ 6.87
Options exercisable at year end	554,000	\$ 7.45	428,250	\$ 9.17



The following table summarizes information about the Corporation's stock options outstanding at December 31, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/02	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/02	Weighted-Average Exercise Price
\$ 3.72 – \$ 4.00	492,000	3.1 Years	\$ 3.92	177,000	\$ 4.00
\$ 8.30 – \$ 9.90	377,000	0.7 Years	\$ 9.07	377,000	\$ 9.07
Total	869,000	2.4 Years	\$ 6.16	554,000	\$ 7.45

In April 2002, 140,000 stock options were granted with an exercise price of \$3.72 per share. If the fair value based method had been used, the Corporation's earnings would have been minimally impacted, with no impact to basic and fully diluted earnings per share.

## 7. INCOME TAXES

The Corporation's provision for (recovery of) income taxes consists of the following:

	2002	2001
Current	\$ (108)	\$ (88)
Future	882	(588)
	\$ 774	\$ (676)

The provision for income taxes differs from the provision computed at statutory rates as follows:

	2002	2001
Canadian combined basic federal and provincial rate 37.52% (2001 – 38.87%)	\$ (569)	\$ (828)
Unrecognized income tax benefits of losses and temporary differences	2,096	(373)
Increase in valuation allowance	2,463	–
US non-capital loss carry forward recognized	(3,020)	–
Capital loss carry forward recognized	(233)	–
Foreign tax rate differentials	149	16
Impact of tax rate reduction	(4)	571
Other	(108)	(62)
	\$ 774	\$ (676)

Differences between accounting rules and tax laws cause differences between the bases of certain assets and liabilities for financial reporting and tax purposes. The tax effects of these differences are recorded as future income tax assets and liabilities and consist of the following components:

	December 31, 2002		December 31, 2001	
	Current	Non-current	Current	Non-current
<b>Future income tax assets</b>				
Non-deductible accruals	\$ 555	\$ 270	\$ 1,616	\$ 1,549
Tax losses carried forward	316	6,661	351	8,809
Capital losses carried forward	232	—	—	—
Depreciable capital assets	—	894	—	—
<b>Future income tax liabilities</b>				
Deductible prepaid expenses	(188)	—	(349)	—
Deferred gain on sale	—	(3,224)	—	—
Depreciable capital assets	—	—	—	(877)
	<b>\$ 915</b>	<b>\$ 4,601</b>	<b>\$ 1,618</b>	<b>\$ 9,481</b>

At the year end, the Canadian operations of Speedy had accumulated tax losses of \$29,900, which begin to expire in 2005. Speedy's US subsidiaries have accumulated tax losses estimated at \$5,400, which begin to expire in 2017. A valuation allowance on a portion of these losses has been provided.

## 8. COMMITMENTS AND CONTINGENCIES

### Operating lease obligations

The Corporation and its subsidiary lease buildings, machinery and equipment under operating leases. Future minimum rental payments on operating leases are as follows:

	Lease payment obligations
2003	\$ 3,671
2004	3,364
2005	3,085
2006	2,861
2007	2,648
Thereafter	15,713
	<b>\$ 31,342</b>

### **Supply agreement**

Under the terms of a supply agreement, Speedy has agreed to purchase certain specified minimum percentages of exhaust and ride control inventories until 2004 at competitive prices.

### **Letters of credit**

Letters of credit of \$4,081 (2001 – \$4,204) were outstanding at Speedy at the year end.

### **Contingencies**

During the normal course of business, various proceedings and claims are instituted against the Corporation and its subsidiaries. The Corporation and its subsidiaries contest the validity of these claims and proceedings and management believes that any settlement will not have a material effect on the financial condition or future results of operations of the Corporation and its subsidiaries.

The Corporation is currently a party in arbitration proceedings with another shareholder of Fleming regarding the valuation of a put of that shareholder's shares of Fleming to the Corporation. While the outcome of the arbitration cannot be reasonably determined, the impact of any settlement is not expected to have a material impact on the financial condition of the Corporation.

## **9. SEGMENTED INFORMATION**

With the formal plan of disposal of Fleming (notes 2 and 15), the Corporation's sole business segment is automotive service and repair which provides two major service offerings, exhaust and non-exhaust service. With the disposal of Speedy's Car-X business (note 2), the Corporation's continuing operations reside predominantly in Canada. Included in the Corporation's operating loss for the year ended December 31, 2002 is \$1,009 (2001 – \$764) incurred by the head office. At December 31, 2002, the head office had identifiable assets of \$2,352 (2001 – \$4,859).



# 10. PENSIONS AND OTHER EMPLOYMENT BENEFITS

Speedy sponsors a registered defined contribution pension plan for certain eligible employees with contributions made by Speedy. As a result of converting Speedy's defined benefit pension plan to a defined contribution plan on January 1, 1996 and settling it in 2000, a pension surplus was recognized. Accordingly, the pension surplus is being used to fund Speedy's contributions required under the defined contribution plan. During the year, Speedy expensed \$491 (2001 – \$492) of the pension surplus, which represented its contributions. At year end, a pension asset of \$468 (2001 – \$959) remains in prepaid and other expenses.

# 11. FINANCIAL INSTRUMENTS

## (a) *Concentration of credit risk*

Speedy's financial instruments that are exposed to concentrations of credit risk consisted primarily of accounts receivable related to the franchise operations in the United States. Speedy performs periodic credit evaluations of its franchisees' financial condition.

## (b) *Fair value of financial instruments*

The carrying values reported in the balance sheet for cash, accounts and other receivables, bank indebtedness and accounts payable and accrued liabilities approximate fair values due to the short maturity of those instruments. The carrying values of the notes receivable approximate fair value because the interest rates on these instruments change with market interest rates.

# 12. SUPPLEMENTARY CASH FLOW INFORMATION

## a) Changes in non-cash working capital balances

	2002	2001
Increase in accounts and other receivables	\$ (159)	\$ (385)
Decrease (increase) in inventories	945	(1,339)
Decrease in prepaid expenses	280	196
Decrease in accounts payable and accrued liabilities	(44)	(4,558)
Increase in income taxes payable	1,624	312
Changes in non-cash working capital balances	\$ 2,646	\$ (5,774)

b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and with banks, and investments in money market instruments with original maturities of 90 days or less. Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	2002	2001
Cash on hand and with banks	\$ 3,242	\$ 9,791
Short-term investments	37,427	5,801
Cash and cash equivalents of discontinued operations	4,100	1,776
Total cash and cash equivalents	\$ 44,769	\$ 17,368

c) Interest and income taxes paid (received)

	2002	2001
Interest paid	\$ 6,958	\$ 6,172
Income taxes paid (received)	\$ (1,530)	\$ 445

**13. RELATED PARTY  
TRANSACTIONS**

In 2002, Speedy paid \$506 (2001 – \$300) to related parties for management fees and other services that were provided at market rates.

**14. ESCROW AGREEMENT**

On September 17, 1998, Speedy completed the sale of its stores operating under the Speedy brand in the United States for gross cash proceeds of US\$52,000 and the assumption of approximately US\$5,000 in operating liabilities. US\$2,000 of the proceeds was placed in escrow for three years to fund potential liabilities as outlined in the agreement. Speedy received US\$1,810 of the escrow in 2001 and recorded related charges and accruals of US\$367.

## 15. SUBSEQUENT EVENT

On February 10, 2003, Fleming reached an agreement with its lenders that addresses Fleming's ongoing default under its loan agreements. Under the terms of the amendment, the Corporation has relinquished its control of Fleming but retains its 82.2% equity position. The lenders have put Fleming up for sale. The Corporation will receive 3.5% of the net proceeds as defined under the terms of the amendment, in addition to its right to participate as shareholder in any surplus funds resulting from the sale which will be accounted for when received.

The Corporation's abandonment of its investment in Fleming in the first quarter of 2003 will result in an after-tax gain of approximately \$21.6 million and will be recorded in that period. The gain is a result of the de-consolidation of Fleming whose liabilities exceeded assets by a similar amount at December 31, 2002 and after giving effect to foreign currency translation adjustments.

The Corporation's unaudited pro-forma condensed consolidated balance sheet reflecting the abandonment of Fleming as if it had occurred on December 31, 2002 is as follows:

Current assets	\$ 55,389
Property, plant & equipment	31,072
Notes receivable	14,112
Other assets	8,041
	<hr/>
	\$ 108,614
<hr/>	
Current and other liabilities	\$ 16,050
Minority interest	43,308
Shareholders' equity	
Capital stock	55,616
Contributed surplus	453
Foreign currency translation adjustments	(175)
Deficit	(6,638)
	<hr/>
	49,256
	<hr/>
	\$ 108,614
	<hr/>



## DIRECTORS

### **Martin Goldfarb, O.C.**

Chairman of the Board,  
Chief Executive Officer and  
President of the Corporation

### **Alonna Goldfarb**

General Counsel and Secretary  
to the Corporation,  
Principal, Goldfarb Intelligence  
Marketing Corporation

### **Irving Abella, C.M.**

Professor of History,  
York University

### **Marshall Cohen, O.C., Q.C.\***

Counsel,  
Cassels Brock & Blackwell LLP  
Barristers and Solicitors

### **Basil J. Coughlan II\***

Partner,  
Northshore Lincoln Mercury Inc.

### **Peter C. Doering**

President,  
Peter Doering Consultants Inc.

### **Stanley Goldfarb F.C.A.\***

Chief Executive Officer,  
Goldfarb Management Services Ltd.

### **Michael J. L. Kirby**

Member of the Senate of Canada

### **Samuel Sarick**

President,  
Samuel Sarick Limited

### **Robert M. Sutherland, Q.C.\***

Counsel,  
Fasken Martineau DuMoulin LLP  
Barristers and Solicitors

*\*Member of the Audit Committee*

### **Chief Financial Officer**

Karen Killeen

### **Transfer Agent**

Computershare Trust Company

### **Auditors**

PricewaterhouseCoopers LLP

### **Stock Exchange Listing**

Toronto Stock Exchange, GDF.A.

### **Annual Meeting**

The annual shareholders' meeting will  
be held on Wednesday, June 25th, 2003  
at 2:00 p.m. at the

Toronto Hilton Hotel  
The Governor General Suite  
145 Richmond Street West  
(University and Richmond)  
Toronto, Ontario

### **Shareholder and Investor Inquiries**

Requests for the Corporation's Annual  
Report, Quarterly Reports and other  
corporate communications should be  
directed to:

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Toronto, Ontario M5R 2S7  
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Tel. (416) 928-3711  
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[www.goldfarbcorp.com](http://www.goldfarbcorp.com)



